

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Davison Downtown Development Authority	County Genesee
Audit Date June 30, 2004	Opinion Date July 14, 2004	Date Accountant Report Submitted to State:		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

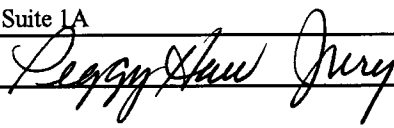
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91 ], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 E. Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature  Peggy Haw Jury, CPA			

**Annual Financial Report**

**Davison Downtown Development Authority  
Davison, Michigan**

**Fiscal Year Ended June 30, 2004**

*with Independent Auditors' Report*

**Davison Downtown Development Authority**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2004**

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## **Introductory Section**

**Davison Downtown Development Authority  
Davison, Michigan  
List of Appointed Officials  
June 30, 2004**

Vacant	Chairman
George Keiss	Vice Chairman
Doug Gilmore	Treasurer
Teresa Raysin	Secretary
Chad Christian	
Dan Fulcher	
Karla Hansen	
BJ Musynski	
Fred Rappuhn	
Eric Reichle	

*Independent Auditors' Report*

Board of Directors  
Davison Downtown Development Authority  
Davison, Michigan

We have audited the financial statements of the governmental activities of the Davison Downtown Development Authority, Davison, Michigan (DDA) as of June 30, 2004, and for the year then ended, which collectively comprise the DDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DDA's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IB, the DDA has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities of the Davison Downtown Development Authority, Davison, Michigan at June 30, 2004, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on page 4 and the information in the required supplementary information section on page 15 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DDA's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "BKR Dapnis & Ryden".

Certified Public Accountants  
Flint, Michigan

July 14, 2004

## **Management's Discussion and Analysis**



**Davison Downtown Development Authority**  
**Management's Discussion and Analysis**  
**June 30, 2004**

As management of Davison Downtown Development Authority (Authority), we offer readers of Davison Downtown Development Authority's financial statements this narrative overview and analysis of the financial activities of the Davison Downtown Development Authority.

The basic financial statements for the Davison Downtown Development Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental funds financial statements.

**First Year – Governmental Accounting Standards Board Statement No. 34**

The Authority is implementing the new Governmental Accounting Standards Board Statement No. 34 reporting requirements this year. Known as GASB 34, the new reporting requirements include this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the Authority is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board (GASB) has recognized this problem, and does not require the Authority to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. The Authority will present a comparative analysis of government-wide data in future years when prior-year information is available. As per the recommendations of the GASB, the following information presents a comparative analysis of key elements of the governmental fund.

**Financial Highlights**

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of Authority are \$81,496 of which \$60,504 represents cash and cash equivalent and \$20,992 represent capital assets. The liabilities are \$58,574, which represents accounts due to other governments, leaving current net assets of \$22,922.

Net assets decreased \$110,117 for the Authority as a result of \$216,376 in net program expenses which are offset by general revenues of \$106,259.

**Capital Assets**

At the end of 2004, the DDA had invested \$20,992 in equipment. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34. Capital assets as stated in this annual financial report do not include any real property or infrastructure purchased by the DDA as this type of property must be titled in the name of the City of Davison.

**Contacting the DDA's Financial Administration**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the DDA's finances and to demonstrate the DDA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.

## **Basic Financial Statements**

**Davison Downtown Development Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**Special Revenue Fund**  
**June 30, 2004**

	<u>Special Revenue</u>	<u>Adjustments (Note II A)</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 60,504	\$ -	\$ 60,504
Capital assets, net	-	20,992	20,992
	<u>\$ 60,504</u>	<u>20,992</u>	<u>81,496</u>
<b>Liabilities</b>			
Accounts payable	\$ 2,225	-	2,225
Due to other governments	56,349	-	56,349
	<u>58,574</u>	<u>-</u>	<u>58,574</u>
<b>Fund Balance/Net Assets</b>			
Fund balances:			
Unreserved	1,930	(1,930)	-
	<u>\$ 60,504</u>	<u>(1,930)</u>	<u>-</u>
<b>Total liabilities and fund balances</b>			
Net assets:			
Invested in capital assets		20,992	20,992
Unrestricted		1,930	1,930
		<u>22,922</u>	<u>22,922</u>
<b>Total net assets</b>		<u>\$ 22,922</u>	<u>\$ 22,922</u>

*See notes to financial statements.*

**Davison Downtown Development Authority  
Statement of Activities and  
Governmental Fund Revenues, Expenditures, and  
Changes in Fund Balance  
Special Revenue Fund  
Year Ended June 30, 2004**

	Special Revenue Fund	Adjustments (Note II B)	Statement of Activities
<b>Expenditures/expenses:</b>			
Development administration	\$ 61,746	\$ -	\$ 61,746
Community administration and promotion	10,106	6,269	16,375
Public improvement	161,048	(7,793)	153,255
	<hr/>		<hr/>
Total expenditures/expenses	232,900	(1,524)	231,376
	<hr/>		<hr/>
<b>Program revenues:</b>			
Grant revenue	15,000	-	15,000
	<hr/>		<hr/>
Net program expense	217,900	(1,524)	216,376
	<hr/>		<hr/>
<b>General revenues:</b>			
Tax increment revenues	105,481	-	105,481
Interest	778	-	778
	<hr/>		<hr/>
Total general revenues	106,259	-	106,259
	<hr/>		<hr/>
Excess (deficiency) of revenues over expenditures	(111,641)	1,524	(110,117)
	<hr/>		<hr/>
<b>Fund balances/net assets:</b>			
Beginning of the year	113,571	19,468	133,039
	<hr/>		<hr/>
End of the year	\$ 1,930	\$ 20,992	\$ 22,922
	<hr/> <hr/>		<hr/> <hr/>

*See notes to financial statements.*

## **Notes to Basic Financial Statements**

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies**

The accounting policies of the Davison Downtown Development Authority (DDA) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison Downtown Development Authority.

**A. Reporting entity**

In 1982, the City of Davison adopted a development and financing plan for downtown. Due to the success of the program the plan was amended in 1996 and extended for an additional fifteen years.

The Davison Downtown Development Authority is a component unit of the City of Davison and is located in Genesee County, Michigan. The purposes for which the DDA is organized are as follows: To act as a downtown development authority in accordance with Act 197 of the Public Acts of 1975, as such statute may from time to time be amended, including particularly to correct and prevent deterioration in the downtown district, to encourage historical preservation, to create and implement development plans in the district, and to encourage the expansion of commercial enterprises in the downtown district.

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Davison Downtown Development Authority (DDA). The DDA is considered a "component unit" of the City of Davison's (City) governmental operation. As a result, industry standards require the City to include the financial activities of the DDA in the City's Annual Financial Report. The Annual Financial Report of the City of Davison is available for public inspection at city hall.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental fund:

Special Revenue Fund - The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits**

The DDA's cash and cash equivalents include cash on hand and demand deposits.

**2. Capital assets**

Capital assets, which include equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as personal property assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All real property or infrastructure purchased by the DDA must be titled in the name of the City of Davison. Therefore, any real property or infrastructure purchased by the DDA has not been included in capital assets.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies – (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**2. Capital assets – (continued)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5

**3. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**4. Property tax**

Property taxes are levied each July 1, on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the Downtown Development Authority District including a Tax Increment Financing Area. On July 1, the property tax attachment is an enforceable lien on the property. Assessed values are established by the City Assessor at 50% of estimated market value. The DDA's tax revenue within the Tax Increment Financing Area is the sum of all taxes levied on the increase in taxable value since designation as a Tax Increment Financing Area. Taxes are billed and collected by the City of Davison and are due by February 28 following the levy date. DDA property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

**5. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Capital assets	<u>\$ 20,992</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$ 20,992</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 7,793
Depreciation expense	<u>(6,269)</u>
Net adjustment to increase <i>net changes in fund balances -</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u>\$ 1,524</u>

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

The DDA follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the budget committee submits to the board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the Special Revenue Fund.
2. Prior to June 30, the budget is legally enacted on a functional basis for the Special Revenue Fund. The City Council must also approve the budget.
3. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**III. Stewardship, compliance, and accountability – (continued)**

**A. Budgetary information – (continued)**

4. Budget appropriations lapse at year end.
5. The original budget was not amended during the year in compliance with applicable state laws. The budget to actual expenditures in the financial statements represent the original budgeted expenditures as adopted by the board.

**B. Excess of expenditures over appropriations**

The following individual cost centers incurred expenditures in excess of appropriations:

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over Final Budget</u>
Special Revenue Fund:			
Development administration	\$ 56,300	\$ 61,746	\$ 5,446
Public improvement	63,700	161,048	97,348

**IV. Detailed notes on all funds**

**A. Deposits and investments**

**Deposits:**

The DDA's deposits consist of a checking account.

At year end, the carrying amount of the DDA's deposits was \$6,025, and the bank balance was \$7,000. The total bank balance was fully covered by Federal Depository Insurance. The difference between the carrying amount and bank balance is a result of outstanding checks.

**Investments:**

Effective December 16, 1998, the DDA adopted an investment policy. Funds of the DDA will be invested in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, and in accordance the following objectives, safety of capital, diversification, liquidity and return of investment. In accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, the surplus of funds of the DDA may be invested as follows:

Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, commercial paper, repurchase agreements, Bankers' acceptances of United States banks, mutual funds, investment pools organized under the surplus funds investment pool act, 1982 PA 367, and investment pools organized under the local government investment pool act, 1985 PA 121.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

Investments: - (continued)

The board has adopted the above as its investment policy and has authorized the following depositories: Bank One, Republic Bank, Davison State Bank, and Citizens Bank.

The DDA's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: Category 1 includes investments that are insured or registered, or for which the securities are held by the DDA or its custodial agent in the DDA's name; category 2 includes uninsured and registered investments for which the securities are held by the broker's or dealer's trust department or agent in the DDA's name; and category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the DDA's name.

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Repurchase Agreement (checking/sweep account)	\$ -0-	\$ 54,479	\$ -0-	\$ 54,479	\$ 54,479

**B. Capital assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

**Primary Government**

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Equipment	\$ 40,520	\$ 7,793	\$ -	\$ 48,313
Total capital assets being depreciated	40,520	7,793	-	48,313
Less accumulated depreciation for:				
Equipment	21,052	6,269	-	27,321
Total accumulated depreciation	21,052	6,269	-	27,321
Total capital assets, being depreciated, net	19,468	1,524	-	20,992
Governmental activities capital assets, net	\$ 19,468	\$ 1,524	\$ -0-	\$ 20,992

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**B. Capital assets – (continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

Community administration and promotion

\$ 6,269

Total depreciation expense - governmental activities

\$ 6,269

**C. Due to other governments**

Included in due to other governments is \$50,000 loaned by the City of Davison to the DDA for the purchase of property in the DDA's district. The loan is to repaid upon the sale of the property with no interest.

**V. Other information**

Risk Management - primary government:

The DDA is exposed to various risks of loss related to property loss, torts, errors, and omissions. The DDA has purchased liability insurance coverage.

**VI. Revenues and expenditures**

**A. Property taxes:**

In 1981, the Davison Downtown Development Authority entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools. An additional district was added in 1996. The DDA's tax incremental revenue is calculated by multiplying the millage (of all entities involved) times the Captured Taxable Value (the difference between current taxable value and the initial taxable value). The initial taxable values were established in 1982 (\$1,713,057) and 1996 (\$1,829,857), respectively. The programs were authorized to continue for a period of fifteen years. The initial plan established in 1982 was renewed for another fifteen years in 1997 taking the plan through 2012.

During 1994, Proposal A was passed by Michigan taxpayers limiting the school millage rates. The law also eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in taxable value within the Tax Increment Financing Area that can be captured and passed through to the DDA. There are three exceptions to this portion of the law under which the school millage could be continued as part of the captured assessment calculation: 1) the DDA has a legal debt obligation; 2) the DDA has an eligible advance payable; 3) or the DDA has specific project commitments. This change in the law, related to the school mills, also applied to the payments received in lieu of taxes from the senior citizens housing complex. These changes drastically reduced the property taxes the DDA received.

**Davison Downtown Development Authority**  
**Davison, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**VI. Revenues and expenditures - (continued)**

**A. Property taxes: - (continued)**

The captured taxable values in excess of the initial taxable values for June 30, 2004 by district is as follows:

District 1 -	\$3,616,265
District 2 -	408,317

The DDA is using the tax increment revenues to improve the plan areas and has created 30 - 40 jobs through the implementation of this plan.

**B. Leases**

The DDA lease storage space located in the City under a lease agreement with the city. The lease may be terminated by either party after a 30-day notification period. The lease expenditure amounted to \$900 in the current year.

Future minimum payments required under the lease are as follows:

<u>Years</u> <u>Ending</u>	<u>Amount</u>
2005	\$ 900
2006	900
2007	<u>225</u>
	<u>\$ 2,025</u>

**VII. DDA proposed improvement projects**

The location, extent and character of the proposed improvements noted in the DDA's plan are identified below. It is estimated that the projects will be completed by the year 2012.

Future minimum payments required under the plan to complete each project are as follows:

<u>Project</u> <u>Priority</u>	<u>Project</u> <u>Description</u>	<u>Location</u>	<u>Estimated</u> <u>Cost</u>
High	Streetscape	Second to Main Street	\$50,000 - \$60,000
High	Repave and rebuild sidewalks	District wide	30,000
Medium	Decorative lighting	District wide	130,000
Medium	Streetscape	M-15 length of the District	250,000
Medium	Farmer's Market	Main and Second Street	50,000
Low	ADA Compliance program	District wide	(cost based on study depth)
Low	Commercial property	Corner of Mill Street and M-15	400,000
Low	Mill Street improvements		75,000
Low	Parking deck construction	End of East Second Street	1,000,000
On-going	DDA administration and promotional activities	District wide	variable

## **Required Supplementary Information**

**Davison Downtown Development Authority**  
**Schedules of Revenues, Expenditures, and Changes in**  
**Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
**Year Ended June 30 2004**

	<b>Budget</b>		<b>Actual</b>	<b>Variance- Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Tax increment revenues	\$ 100,000	\$ 100,000	\$ 105,481	\$ 5,481
Grant	-	-	15,000	15,000
Interest	1,000	1,000	778	(222)
<b>Total revenues</b>	<b>101,000</b>	<b>101,000</b>	<b>121,259</b>	<b>20,259</b>
<b>Expenditures:</b>				
Current:				
Development administration:				
Office expenses	26,400	26,400	26,400	-
Insurance	4,500	4,500	4,626	(126)
Audit fees	1,500	1,500	1,400	100
Administrative expense and travel	1,000	1,000	822	178
Maintenance	16,000	16,000	17,655	(1,655)
Lease payments	900	900	900	-
Decoration placement labor	4,000	4,000	7,437	(3,437)
Utilities	2,000	2,000	2,506	(506)
<b>Total development administration</b>	<b>56,300</b>	<b>56,300</b>	<b>61,746</b>	<b>(5,446)</b>
Community administration and promotion:				
Promotion and marketing	5,000	5,000	2,710	2,290
Pumpkin Festival expense - net	4,000	4,000	3,904	96
Farmer's Market expense - net	4,000	4,000	3,492	508
Events director	3,000	3,000	-	3,000
<b>Total community administration and promotion</b>	<b>16,000</b>	<b>16,000</b>	<b>10,106</b>	<b>5,894</b>
Public improvement:				
Engineering	2,500	2,500	274	2,226
Plan review	1,500	1,500	30,000	(28,500)
Paving	5,000	5,000	3,459	1,541
Streetscaping	18,200	18,200	236	17,964
Contingency	2,500	2,500	-	2,500
Christmas	9,000	9,000	7,793	1,207
Commercial property	25,000	25,000	119,286	(94,286)
<b>Total public improvement</b>	<b>63,700</b>	<b>63,700</b>	<b>161,048</b>	<b>(97,348)</b>
<b>Total expenditures</b>	<b>136,000</b>	<b>136,000</b>	<b>232,900</b>	<b>(96,900)</b>
Excess (deficiency) of revenues over expenditures	(35,000)	(35,000)	(111,641)	76,641
Fund balance - beginning of year	113,571	113,571	113,571	-
<b>Fund balance - end of year</b>	<b>\$ 78,571</b>	<b>\$ 78,571</b>	<b>\$ 1,930</b>	<b>\$ 76,641</b>

July 14, 2004

Members of the Board  
Davison Downtown Development Authority  
Davison, Michigan

We have audited the financial statements of the Davison Downtown Development Authority (the DDA) for the year ended June 30, 2004, and have issued our report thereon dated July 14, 2004. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal controls of the DDA. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Current Year Comments**

A capitalization policy needs to be adopted. The policy should indicate the dollar threshold for capitalization of assets, as well as, the number of years to be expensed over.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the DDA are described in Note 1 to the general purpose financial statements. During the current year, GASB No. 34, Statement No. 34 - Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments, was implemented. We noted one transaction entered into by the DDA during the year that was both significant and unusual; the DDA entered into a \$50,000 loan with the City of Davison to be used for the purchase of real property. The loan is to repaid upon sale of the property with no interest.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the DDA that



could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We made adjustments to accounts payable, grant revenue, and expenditures.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

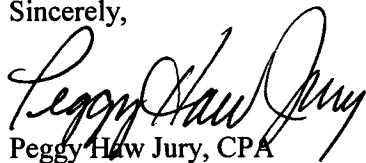
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the DDA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would also like to express our appreciation for the cooperation extended to our staff by Doug Gilmore and Colleen Hackney during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,

  
Peggy Haw Jury, CPA  
Principal

Flint Office